BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R97-1

THIRD SET OF INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA TO USPS WITNESS DEGEN (MPA/USPS-T12-11-16)

(September 17, 1997)

Pursuant to the Commission's Rules of Practice, Magazine Publishers of America hereby submits the attached interrogatories to USPS witness Degen (MPA/USPS-T12-11-16).

Respectfully submitted,

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INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA TO UNITED STATES POSTAL SERVICE WITNESS DEGEN

MPA/USPS-T12-11. Please refer to Attachment 1 of your response to MPA/USPS-T12-1.

a. Has the Postal Service performed any quantitative studies to determine whether uncounted items are similar to counted items (with respect to Class, Subclass, and shape)? If so, please summarize the findings of each study and provide a copy.

b Has the Postal Service performed any quantitative studies to determine whether unidentified containers are similar to identified and identical containers (with respect to the items contained within the container)? If so, please summarize the findings of each study and provide a copy.

c Has the Postal Service performed any quantitative studies to determine whether items in containers are similar to items not in containers (with respect to Class, Subclass, and shape)? If so, please summarize the findings of each study and provide a copy of each study.

MPA/USPS-T12-12. Please refer to your response to OCA/USPS-T12-19 and suppose that data collectors were instructed to always enter multiples of 25 for the nonzero responses to question 21D.

(a) Would such a practice constitute a potential source of nonsampling error? Please explain fully.

(b) Could such a practice bias the responses of data collectors upward or downward? Please explain fully.

MPA/USPS-T12-13. Please refer to your response to MPA/USPS-T12-2(i)(ii) where you state: "The costs for passport-related activities should fall into the non-volume variable portion of the cost pool and, thus, not be distributed to subclass."

a. Please confirm that Witness Bradley's regression analysis does not definitively show that passport-related activities fall into the non-volume variable portion of cost. If not confirmed, please explain fully.

b. Please confirm that Witness Bradley's regression analysis does not definitively show whether the cost for any IOCS activity code falls into the non-volume variable portion of cost. If not confirmed, please explain fully

c. Please confirm that if the hours for passport-related activities vary with the number of direct work hours within a cost pool, the cost for passport-related activities would indirectly vary with total piece handlings for the cost pool. If not confirmed, please explain fully

MPA/USPS-T12-14. Please refer to Page 5, Lines 12-14 and Footnote 7 and Table 5 of your direct testimony.

a. Please confirm that the only cost pools for which you did not confine the distribution of mixed mail tallies to direct tallies associated with the same cost pool were platform activity cost pools ("MODS 1Platform" and "BMCs Platform")

b. Individually for all cost pools where you did not confine the distribution of mixed mail tallies to direct tallies associated with the same cost pool, please list the cost pools on which you distributed mixed mail tallies.

c. For which cost pools did you not confine the distribution of not handling mail tallies to direct and mixed mail tallies within the same cost pool?

d Individually for all cost pools where you did not confine the distribution of not handling mail tallies to direct and mixed mail tallies associated with the same cost pool, please list the cost pools on which you distributed not handling mail tallies.

MPA/USPS-T12-15. Please confirm that you distributed the attached briefing materials at your August 20, 1997 Technical Conference.

MPA/USPS-T12-16. Please refer to pages 16 and 17 of the briefing materials which you distributed at the August 20, 1997 Technical Conference, where you state: "If no direct tallies are found for an item type within a cost pool then mixed-mail items are distributed using direct items of the same type for all cost pools. Loose mail in containers is treated as an item... If no direct or identified containers are found in the cost pool, the distribution for the container type across all cost pools is used."

a Please list all cost pool/item type combinations with no direct tallies, and provide the number of unweighted mixed mail tally counts and the weighted mixed mail tally cost for each cost pool/item type combination with no direct tallies. Please provide this information in an electronic spreadsheet.

b. When you stated, "If no direct tallies are found for an item type within a cost pool then mixed-mail items are distributed using direct items of the same type for all cost pools," did you mean that mixed-mail items are distributed using direct items of the same type for all cost pools within a facility type (e.g., non-MODS, BMCs, MODS)?

c Please list all cost pool/container type combinations with no direct or identified container tallies, and provide the number of unweighted unidentified container tally counts and the weighted unidentified container tally cost for each cost pool/container type combination with no direct or identified container tallies. Please provide this information in an electronic spreadsheet.

MODS-Based Mail Processing Costing

Technical Conference
R97-1

August 20, 1997

1

Why Change CRA Methods

- Not-handling-mail costs have been increasing
- These costs have been distributed by direct labor costs
- The methods used to distribute mixed-mail (LIOCATT) have been criticized
- The existing methodology assumed Mail Processing costs are 100% variable

2

How Was New Method Developed

- Estimation of variability requires data linking costs and volume
- MODS links hours with TPH
- Cost pools are formed to be consistent with econometrically estimated variability factors

3

How Does New Method Address Criticisms

- MODS cost pools partition mixed-mail and not-handling-mail costs into operational groups along with direct costs
- Volume variability factors have been estimated for each cost pool
- Distribution of volume-variable costs to subclass occurs at cost pool level
- Item and container information is used to distribute mixed-mail costs.

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Overview of New Method

- Clerk and Mailhandler costs are broken down to office group (MODS, Non-MODS, BMC) using finance number map
- Separation of costs between Mail Processing and Admin/Window is done by LDC for MODS offices and by IOCS tally costs for Non-MODS and BMCs

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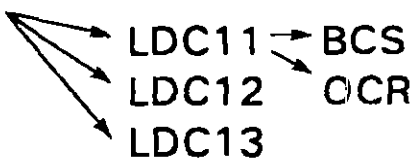
Cost Pool Formation - MODS

MODS MP Costs



The shares of MODS hours by operation number are used to partition LDC costs into cost pools.

*Some LDC's are not divided into finer operation groups (15, 41-44, 49 & 79)

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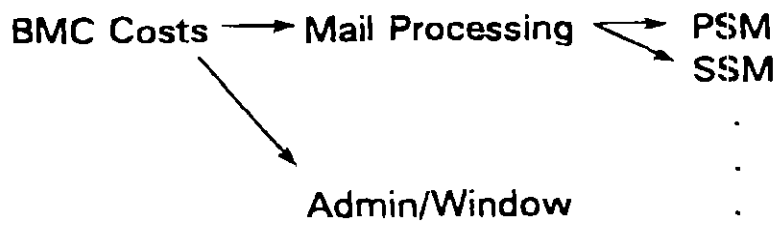
Cost Pool Formation: BMCs



- Partition of BMC costs into Mail Processing and Admin/Window is based on IOCS question 18
- Partition of Mail Processing BMC costs in operation groups is based on IOCS question 18 & 19

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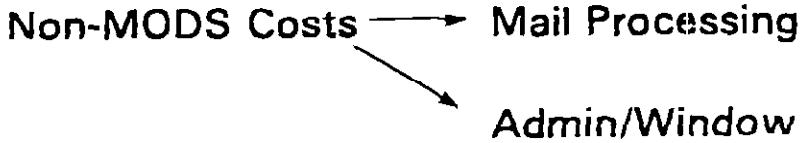
Cost Pool Formation: Non-MODS



- Partition of Non-MODS costs into Mail Processing and Admin/Window is based on IOCS question 18

8

Volume variable costs are obtained by multiplying each cost pool total by the corresponding estimated variability.

- Some variabilities are direct estimates, others are proxies (see witness Bradley's testimony, USPS-T-14)

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Distribution of Volume Variable Costs to Subclass

- Separate keys are developed for each MODS and BMC cost pool
- The Non-MODS key is created by summing keys developed for the four Basic Functions

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Grouping of Tallies for Distribution Keys: MODS

- Tallies are mapped to cost pool by MODS operation number recorded in IOCS question 18A
- If question 18A is blank or invalid, then questions 18 and 19 are used to estimate the appropriate cost pool
- The appropriate MODS operation is the number into which the employee is clocked

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Grouping of Tallies for Distribution Keys: BMC

- Tallies are assigned to cost pool during same process that created cost pools (using questions 18 and 19)

12

Grouping of Tallies for Distribution Keys: Non-MODS

- Tallies are assigned to Basic Function using question 26

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Distribution Key Formation

Keys are the sum of dollar-weighted tallies by activity code for:

- direct tallies
- distributed mixed-mail items
- distributed mixed-mail containers
- distributed not-handling-mail costs

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Key Formation: Direct Tallies

- Activity Codes 0010-4950, 5300-5461
- For example, tallies where employee was observed handling:
  - single pieces of mail
  - identical mail in item or containers
  - items subject to the top-piece rule
  - items whose contents were counted*

*The system generates a record for each activity code corresponding to the classes and shapes of mail found in the item.

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Key Formation: Distributed Mixed-Mail Items

- These are items identified by type (in IOCS question 21) whose contents were not counted. These include single items and items observed by DCTs in mixed-mail containers
- These tally costs are distributed in proportion to the direct costs for the same item type and cost pool*

*If no direct tallies are found for an item type within a cost pool then mixed-mail items are distributed using direct items of the same type for all cost pools. Loose mail in containers is treated as an item.

16

Key Formation: Distributed Mixed-Mail Containers

- These are containers whose contents were not recorded in IOCS question 21
- These tally costs are distributed in proportion to the sum of the direct costs for identical mail containers plus distributed item costs from identified containers of the same container type and cost pool*

*If no direct or identified containers are found in the cost pool, the distribution for the container type across all cost pools is used.

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Key Formation: Not-Handling-Mail

- Includes all Mail Processing tallies not included above
- Distributed using the sum of direct mail, distributed item, and distributed container tally costs
- Not-handling-mail tally costs are only distributed to special services in cost pools that are special service related

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Key Formation: Special Cases

In some instances, the distribution of mixed-mail or not-handling-mail costs is based cost pools in addition to itself.

- For MODS platform, all MODS and Allied labor cost pools are used for mixed items in containers
- For MODS 1MISC and 1 Support, all function 1 cost pools are used for not handling mail
- For MODS 1EEQMT (empty equipment), all MODS mail processing cost pools are used for not-handling-mail
- For MODS LD48OTH, all MODS function 4 cost pools are used for not-handling-mail
- For BMC Platform, all BMC cost pools are used for mixed items (single items and items in identified containers)
- For Non-MODS 'Other' basic function, all basic functions are used for mixed items (single items, items in identified containers)
- For Non-MODS, activity codes 6XXX (except 6521-23) are distributed by IOCS operation code rather than basic function

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Distributed Volume Variable Costs

- Distribution key shares are multiplied by volume variable cost for each cost pool
- Volume variable costs by subclass are obtained by summing across corresponding activity codes and all cost pools

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.

James R. Cregan

Washington, D.C.
September 17, 1997